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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch***

**RESOLUTION T-16956
September 22, 2005**

R E S O L U T I O N

Resolution T-16956. Approval of Fiscal Year 2006-07 California High Cost Fund-A (CHCF-A) Administrative Committee (AC) Fund Expense Budget to Comply with the Requirements of Public Utilities Code Section 270 (A).

Summary

This resolution adopts a California High Cost Fund-A (CHCF-A) expense budget of \$58.814 million for Fiscal Year (FY) 2006-07 and a revised FY 2005-06 expense budget of \$42.695 million.

Background

The California High Cost Fund (HCF) was implemented by D.88-07-022 as modified by D.91-05-016 and D.91-09-042 to provide a source of supplemental revenues to three mid-size and seventeen small Local Exchange Companies (LECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service.

D.96-10-066 changed the name of HCF to CHCF-A and created the California High Cost Fund-B (CHCF-B). This decision included the three mid-size LECs in the CHCF-B program for the purpose of determining universal service subsidy support and maintained the CHCF-A for the 17 small LECs.

CHCF-A is funded by a surcharge assessed on consumers' intrastate telecommunications services. Prior to October 2001, a tax-exempt trust was established for the receipts and disbursements of CHCF-A funds. In compliance with PU Code § 270 et seq., which were codified by the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677), the following events took place on October 1, 2001:

DRAFT

- the State Treasury created a CHCF-A AC Fund for the receipts and disbursements of CHCF-A funds; and
- the Commission created CHCF-A AC to advise the Commission regarding the development, implementation, and administration of the CHCF-A program.

§ 270(b) requires that the monies in the CHCF-A and five other funds may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act. Since FY 2001-02, the CHCF-A Fund expenditures have been authorized in the State's Annual Budget Act.

On June 1, 2005, in compliance with Paragraph 4.a.1 of the CHCF-A AC Charter, the Alternate Vice Chairperson of the CHCF-A AC submitted a letter request to the Executive Director endorsing the CHCF-A AC budget. The Alternate Vice Chairperson's request was made in his personal capacity since the CHCF-A AC was unable to meet to deliberate on this matter due to lack of a quorum and could not make a proposed budget submission before June 1, 2005.¹

Notice/Protests

Notice of the CHCF-A AC Alternate Vice Chairperson's letter request was published in the Commission Daily Calendar of July 28, 2005.

The Commission did not receive any protests or comments on this matter.

Discussion

In this Resolution, the Commission adopts a proposed CHCF-A expense budget of \$58.814 million for FY 2006-07 and a revised FY 2005-06 expense budget of \$42.695 million.

Appendix A shows a comparison of the adopted FY 2004-05 expense budget, the FY 2005-06 Approved Expense Budget², a revised FY 2005-06 expense budget and revised FY 2006-07 Expense Budget, as proposed by the Telecommunications Division (TD).

¹ Pursuant to Article 4.1. (a) of the CHCF-A AC Charter, the CHCF-A AC is required to submit a proposed FY 2006-07 by June 1, 2005.

²The FY 2005-06 State Budget appropriated the amount of \$42.695 million for the California High-Cost Fund –A Administrative Committee Fund (Senate Bill 77, Stats. 2005, Chapter 38. Resolution T-16876 dated October 28, 2004 adopted a CHCF-A AC expense budget of \$39.650 million for FY 2005-06.

DRAFT

The FY2005-06 and 2006-07 expense budgets are revised to reflect intercarrier compensation for Calendar Year (CY) 2006, Volcano Telephone Company's intercarrier compensation for CY 2006 and 2007, the increase in Siskiyou Telephone Company's CHCF-A draw as a result of its general rate case filing, and the effect of Foresthill Telephone Company's general rate case and its intercarrier compensation. Also included is an increase in the number of meetings of the CHCF-A AC from one to four. The Charter of the CHCF-A specifies that four meetings are to be held yearly. The increase in the number of meetings results in an increase of \$2,800 in the Commission adopted FY 2005-06 budget in Resolution T-16876.

The breakdown of the FY 2006-07 expense budget is shown below:

Carrier Claims	\$47,720,231
Other Program Services	0
Other Legislative Mandated Programs	10,000,000
Administrative Committee-Per Diem	1,200
Administrative Committee-Travel and Others	2,400
Administrative Committee-Special Needs	
Accommodation	0
Financial Audit	0
Compliance Audit	0
Surcharge Remittance Audit	185,000
Claim Audit	0
Banking Fees	20,000
Interagency cost	305,000
CPUC Staff and Administrative Costs	530,000
Other operating costs	50,000
Total	\$ \$58,813,831.00

Comments

In compliance with PU Code § 311 (g), notice letters were mailed/e-mailed on August 23, 2005 to the 17 small LECs, the CHCF-A AC, and the parties of record in R.01-08-002 and A.99-09-044, informing these parties that this draft resolution is available at the Commission's website <http://www.cpuc.ca.gov/static/industry/telco/index.htm> and is available for public comments. In addition, the Telecommunications Division (TD) informed these parties of the availability of the conformed resolution at the same website.

DRAFT

- a. On September 7, 2005, Cooper, White and Cooper LLP filed comments on the draft Resolution T-16956³ pointing out that the following four issues resulted in an understatement of the amount for carrier claimsIntercarrier compensation

While the proposed FY 2006-07 budget includes amounts for intercarrier compensation pertaining to CY 2007, the proposed budget should also include amounts for CY 2006. There is a strong probability that a decision on intercarrier compensation reform will be forthcoming before the end of 2005.

- b. Intercarrier compensation for Volcano Telephone Company

The proposed budget does not include any intercarrier compensation amounts for Volcano Telephone Company.

- a. Siskiyou Telephone Company's General Rate Case

The Siskiyou Telephone Company recently filed a rate case which, if adopted as filed, would increase its draw by \$3,098,032 in both calendar years 2006 and 2007; and

- b. Foresthill Telephone Company's General Rate Case

The new management of Foresthill has decided to file a general rate case in early 2006. Foresthill anticipates that its draw from the CHCF-A beginning in 2007, and the proposed budget should be updated to reflect this \$600,000 for CY 2007 and an intercarrier compensation requirement of \$840,000 in Calendar Year 2007. Since the transfer of control in Foresthill occurred after the May 1, deadline, these amounts were not included in the May 1 carrier CHCF-A estimate submission.

While the FCC has not made a decision on the modification of intercarrier compensation framework, we agree with Copper, White and Cooper's position that it would be prudent to include the amount of \$13,198,799 for CY 2006.

In initially determining Volcano Telephone Company's CHCF-A draw, TD used Volcano's submission of estimate dated March 4, 2005. In view of new information available, both from Volcano's later submission and the Cooper, White and Cooper's submission, Volcano's draws have been revised to include intercarrier compensation of \$2,217,900 and \$2,240,100 for CYs 2006 and 2007, respectively.

The new information supplied as a result of the filing of a general rate case by Siskiyou and Foresthill has been reflected in this Resolution. Likewise, we have included in this Resolution Foreshill's intercarrier compensation estimate.

³ Comments were filed on behalf of Calaveras Telephone Co., Cal-ore Telephone Co., Ducor Telephone Co., Foresthill Telephone Co., Global Valley Networks, Inc., Happy Valley Telephone Co., Hornitos Telephone Co., Kerman Telephone Co., Pinnacles Telephone Co., The Ponderosa Telephone Co., Sierra Telephone Co., The Siskiyou Telephone Co., Volcano Telephone Co., and Winterhaven Telephone Co.

DRAFT

The inclusion of the intercarrier compensation for CY 2006, Volcano's CY 2006 and 2007 intercarrier compensation, Siskiyou's increase in the CHCF-A draw for CY 2006 and 2007 as a result of the general rate case, and Foresthill's estimate of its CHCF-A draw as a result of Foresthill's general rate case filing and its estimate of its intercarrier compensation for CY 2007 will increase the FY 2005-06 expense budget to \$46.101 million, exceeding both the FY 2005-06 adopted Commission budget of \$39.650 million in Resolution T-16876 and the State adopted appropriation level of \$42.695 million for FY 2005-06. Because of the State budget appropriations limitation, intercarrier compensation for FY 2005-06 is limited to \$3.19 million. Therefore, the remaining balance of \$10.01 (\$13.20 million less \$3.19 million) for calendar year 2006 is included in the FY 2006-07 budget. During FY 2005-06, carriers' intercarrier compensation will be prorated based on the January through June of 2006 amounts authorized by both FCC and the Commission, and the available projected appropriation balance for FY 2005-06. The balance due for January through June will be paid in six equal installments during July through December of 2006 in addition to the July through December intercarrier payments.

Assuming a billing base of \$ 20,388,424,183 and a zero beginning cash balance, a surcharge rate of .23% will be required to support the FY 2005-06 expense budget of \$42.695 million.

Findings

1. In October 1999, Public Utilities Code (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill 669.
2. PU Code § 270(b) requires that the monies in California High Cost Fund-A (CHCF-A) Administrative Committee Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.
3. On June 1, 2005, in compliance with Paragraph 4.a.1 of the CHCF-A AC Charter, the Alternate Vice Chairperson of the CHCF-A AC submitted a letter request to the Telecommunications Director endorsing the CHCF-A AC budget. The Alternate Vice Chairperson submitted the proposed CHCF-A AC budget in his personal capacity as the CHCF-A AC was unable to meet due to lack of quorum.
4. Notice of the CHCF-A AC Alternate Vice Chairperson's letter request was published in the Commission Daily Calendar of July 28, 2005. The Commission did not receive any protests or comments on this matter.
5. Notice letters advising parties of the availability of this draft resolution and the conformed resolution, when adopted by the Commission on the Commission's

DRAFT

web site were mailed/e-mailed to the 17 small LECs, the CHCF-A AC, and the parties of record in R.01-08-002 and A.99-09-044, on August 22, 2005.

6. On September 7, 2005, Cooper, White and Cooper LLP filed comments on draft Resolution T-16956 pointing out that there were four issues that resulted in an understatement of the amount for carrier claims. These include: a) inclusion of intercarrier compensation for FY 2006, b) intercarrier compensation for Volcano Telephone Company for 2006 and 2007; c) the increase in the CHCF-A draw due to the filing of a general rate case by Siskiyou Telephone Company; and d) the effect of the filing of a general rate case by Foresthill Telephone Company and Foresthill's intercarrier compensation for CY 2007.
7. TD concurs with the position of Cooper, White and Cooper LLP and has included the new data in the budget.
8. The inclusion of intercarrier compensation for CY 2006, Volcano's CY 2006 and 2007 intercarrier compensation, Siskiyou's increase in the CHCF-A draw for CY 2006 and 2007 as a result of the general rate case, and Foresthill's estimate of its CHCF-A draw as a result of Foresthill's general rate case filing and its estimate of its intercarrier compensation for CY 2007 will increase the FY 2005-06 expense exceeding both the FY 2005-06 adopted Commission budget of \$39.650 million in Resolution T-16876 and the State adopted appropriation level of \$42.695 million for FY 2005-06.
9. Because of the State budget appropriations limitation, intercarrier compensation for FY 2005-06 is limited to \$3.19 million. Therefore, the remaining balance of \$10.01 (\$13.20 million less \$3.19 million) for calendar year 2006 is included in the FY 2006-07 budget. During FY 2005-06, carriers' intercarrier compensation will be prorated based on the January through June of 2006 amounts authorized by both FCC and the Commission, and the available projected appropriation balance for FY 2005-06. The balance due for January through June will be paid in six equal installments during July through December of 2006 in addition to the July through December intercarrier payments.
10. D's proposed revised FY 2005-06 expense budget of \$42.695 million is reasonable and should be adopted.
11. D's proposed FY 2006-07 expense budget of \$58.814 million is reasonable and should be adopted.

DRAFT

THEREFORE, IT IS ORDERED that:

1. The revised CHCF-A FY 2005-06 expense budget of \$42.695 million, as set forth in Appendix A of this resolution, is adopted.
2. The FY 2006-07 CHCF-A expense budget of \$58.814 million, as set forth in Appendix A of this resolution, is adopted.
3. Carriers' intercarrier compensation payments for January through June of 2006 will be prorated based on the amounts authorized by both FCC and the Commission, and the available projected appropriation balance for FY 2005-06. The balance due for this six-month period will be paid in six equal installments during July through December of 2006.

DRAFT

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 22, 2005. The following Commissioners approved it:

STEVE LARSON
Executive Director

APPENDIX A
CALIFORNIA HIGH COST FUND A ADMINISTRATIVE COMMITTEE FUND
EXPENSE BUDGET FOR FY 2006-07

	Adopted per Res T-16793 <u>July 2004- June 2005</u>	Adopted per Res. T-16876 <u>July 2005 - June 2006</u>	Revised <u>July 2005 - June 2006</u>	Proposed <u>July 2006 - June 2007</u>	Adopted <u>July 2006 - June 2007</u>	
PROGRAM EXPENSES						
Carrier Claims	\$36,205,355	\$28,039,696	\$31,084,200	47,720,231	\$47,720,231	¹
Other Program Services	\$0	\$0	\$0	0	\$0	
Other Legislative Mandated Programs	\$0	\$10,000,000	\$10,000,000	10,000,000	\$10,000,000	²
Administrative Committee-Per Diem	\$10,000,000	\$300	\$300	1,200	\$1,200	³
Administrative Committee-Travel and Others	\$300	\$500	\$500	2,400	\$2,400	⁴
Administrative Committee-Special Needs Accommodation	\$500	\$0	\$0	0	\$0	
Financial Audit	\$100,000	\$100,000	\$100,000	0	\$0	
Compliance Audit	\$500,000	\$300,000	\$300,000	0	\$0	
Surcharge Remittance Audit	\$600,000	\$400,000	\$400,000	185,000	\$185,000	
Claim Audit	\$0	\$0	\$0	0	\$0	
Banking Fee	\$23,000	\$50,000	\$50,000	20,000	\$20,000	⁵
Interagency Cost	\$207,815	\$210,000	\$210,000	305,000	\$305,000	⁶
CPUC Staff and Administrative Costs	\$182,000	\$500,000	\$500,000	530,000	\$530,000	⁷
Other Operating Expenses	\$50,000	\$50,000	\$50,000	50,000	\$50,000	⁸
Total Program Expenses	\$47,868,970	\$39,650,496	\$42,695,000	58,813,831	\$58,813,831	
State Approved Appropriation	\$59,269,000	\$42,695,000	\$42,695,000			

¹ Fiscal Year 2006-07 claim payments are based on estimates submitted by the small LECs in May 2005 updated to include intercarrier compensation for Calendar Years 2006 and 2007, and estimates of the increase in the CHCF-A support as a result of General Rate Case filings of Siskiyou and Foresthill. Because of limitations in the State appropriations, intercarrier compensation for January - June 2006 cannot be fully reflected in FY 2005-06. Of the \$13.20 million intercarrier compensation for CY 2006, \$3.19 million is included in the FY 2005-06 budget while \$10.01 million is included in FY 2006-07. Actual FY 2004-05 expense figures are not available.

² Assembly Bill 140 provides transfer payments to telephone corporations providing service in high cost areas. At this time, only the CHCF-A program will provide funding for this program until certain issues relating to the California High Cost Fund -B are resolved. AB 140 funding level is not to exceed \$10 million per year.

^{3 & 4} Pursuant to D.02-04-059, per diem and other costs are authorized for committee members attendance in the CHCF-A Administrative Committee meeting. It is assumed that there will be 4 meetings a year in FY 2005-06 and 2006-07.

⁵ Estimated lockbox and access fees

⁶ Refers to pro-rata costs allocated to state service agencies, e.g. DGS, State Personnel Board

⁷ Refers to CPUC CHCF-A staff and administrative costs.

⁸ Estimated costs for SQL programming and maintaining the electronic filing and monitoring system.